Hudson's Bay Oil and Gas Company Limited 1968 Annual Report

file

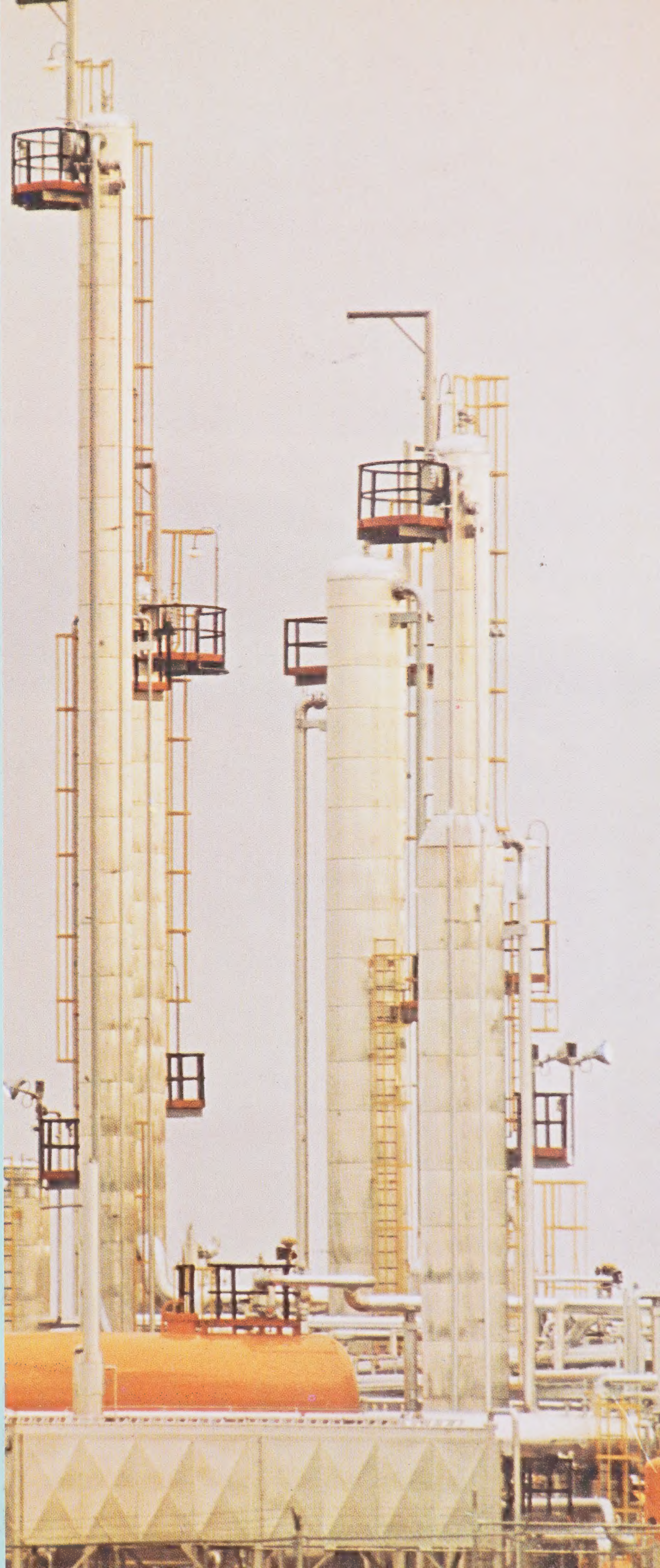
Pushing Back

The Frontier

The adjoining pictorial essay outlines the sequence in the exploration for and development of a natural gas field in a remote section of Alberta.

The wilderness area depicted has few roads and consists of timber stands and swamp-like muskegs interspersed with streams and small lakes. The use of tracked geophysical equipment enables seismic exploration to be carried on throughout most of the year. In this case a geological prospect, confirmed by geophysical surveys, was drilled and found to contain a reservoir of "sour" natural gas. The operator is working on a wellhead, one of a number that are connected by a pipe line gathering system to a processing plant where petroleum liquids and sulphur are extracted from the gas.

Problems associated with development of such a reservoir have taxed engineering ingenuity. Roads, railroads and pipe lines must be built under trying conditions through difficult terrain. High operating pressures and the potentially corrosive nature of the sulphur-laden gas impose critical standards of design and construction. During plant construction as many as a thousand men must be fed and housed in comfortable temporary units, and after completion of construction, homes and community services must be provided for the permanent staff.



Hudson's Bay Oil and Gas Company Limited

1968 Annual Report

CONTENTS

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will be held at the Head Office of the Company on Tuesday, April 22, 1969 at 11:30 a.m. Notice of the meeting and proxy forms are being mailed with this report.

Financial and Operating Highlights

	1968	1967	Increase (Decrease) Per Cent
Financial			
Gross Operating Revenues	$66,884,000	$61,688,000	8.4
Net Cash Income Generated from Operations			
Total	$42,751,000	$38,277,000	11.7
Per Common Share	$ 2.25	$ 2.07	8.7
Net Earnings			
Total	$26,790,000	$22,139,000	21.0
Per Common Share	$ 1.38	$ 1.19	16.0
Dividends Declared			
Common – Total	$ 9,147,000	$ 9,147,000	–
Per share	$ .50	$ .50	–
Preferred – Total	$ 1,500,000	$ 375,000	300.0
Per share	$ 2.50	$ .625	300.0
Capital Expenditures and Exploration Expense	$60,695,000	$41,752,000	45.4
Operating			
Crude Oil and Natural Gas Liquids			
Production – Net (Barrels per day)	49,515	47,294	4.7
Natural Gas Sales – Net			
(Millions of cubic feet per day)	233.3	196.7	18.6
Sulphur Sales – Net (Long tons per day)	406	433	(6.1)
Pipe Line Throughput (Barrels per day)	66,578	58,812	13.2
Oil and Gas Rights (Net acres at year end)	20,676,000	19,566,000	5.7
Proved and Probable Reserves – Net (at year end)			
Crude Oil and Natural Gas Liquids (Barrels)	376,137,000	354,061,000	6.2
Natural Gas (Millions of cubic feet)	3,134,000	3,033,000	3.3
Sulphur (Long tons)	9,490,000	6,530,000	45.3

President's Message

For Hudson's Bay Oil and Gas, 1968 was another year of substantial growth with new records established in almost every phase of its operations. Net earnings and net cash income generated from operations reached new highs; significant gains were achieved in all major revenue categories; both exploratory spending and capital outlays for new production facilities were larger than in any previous year; and net additions were achieved in hydrocarbon and sulphur reserves.

Net earnings for the year were $26,790,000, a 21% increase over 1967. After providing for a full year's dividends on the preferred shares, net earnings per common share were $1.38, a gain of 16%. Net cash income generated from operations was up 11.7% to $42,751,000, and after preferred dividends amounted to $2.25 per common share an 8.7% increase.

Total revenues for the year were $69,740,000, a gain of $6,385,000 or 10.1%. Gross operating revenues increased by $5,196,000 or 8.4% due to larger sales volumes of crude oil, gas liquids and natural gas, a higher average price realized on sulphur sales, and a greater volume of business in pipe line and product distribution operations. Miscellaneous revenues were $1,189,000 higher, principally from additional interest earnings on larger holdings of short-term investments.

Capital expenditures and exploration expenses totalled $60,695,000 in 1968 as compared with $41,752,000 in the previous year. New natural gas processing plants and an expanded exploration program accounted for most of the increase in expenditures. The gas plant construction program included four new plants and a major addition to an existing plant. All of these projects were completed essentially on schedule, one in June, one in August, another in December and the remaining two since year end. This additional processing capacity will result in an important increase in the Company's sales of natural gas and associated products in 1969. Through its drilling activities in 1968, the Company participated in several discoveries and extensions to existing fields. The most significant of these were an extension to the Kaybob South natural gas reservoir, which now ranks as one of Canada's major gas fields, and further oil discoveries in the Zama Lake area. Additions to reserves were well in excess of the 18 million barrels of crude oil and natural gas liquids and 85 billion cubic feet of natural gas sold during the year. The Company's estimated net recoverable reserves at year end are listed in the operating highlights on the opposite page.

The Canadian petroleum industry operated at record levels in 1968 and continuing growth appears in prospect for 1969. Canadian production of liquid hydrocarbons increased by 7.7% in 1968 and further gains are

indicated for 1969. The growth in domestic demand for Canadian crude oil and equivalents is expected to be maintained at approximately the 4.8% average rate of the past few years. However, the probable level of exports to the United States is particularly difficult to forecast this year in view of current uncertainties as to the impact of import guidelines periodically established by the United States government. If export growth is severely restricted by government policy, the total gain in Canadian liquid hydrocarbon production in 1969 will fall appreciably below the percentage increases realized in the past few years.

Sales of natural gas from Western Canada increased by 12% in 1968. With the additional delivery capacity to eastern markets that became available late in 1968 on completion of the Great Lakes transmission system and with recent regulatory approvals for larger export volumes to the west coast of the United States, sales in 1969 should increase by a further 11% to 13%. Reflecting the expansion in the industry's gas processing capacity, sulphur production is projected to increase by almost 50% in 1969. It appears that there will be continuing downward pressure on the market price of sulphur and that part of this additional production will be stockpiled.

Sulphur

The recent oil discoveries in Alaska will result in an acceleration of the industry's exploration activities in that area and the adjoining Canadian Arctic. The drilling planned for the current winter season should shed some light on the potential of these areas and the magnitude of the impact they may have on North American supply-demand patterns.

The Company's plans for 1969 will involve higher outlays for exploration activities and about the same total of capital expenditures as in 1968. Outlays for gas processing facilities will decline from the unusually high level reached in 1968 but substantial expenditures will be incurred for plant construction in the extended Kaybob South field. Also initial expenditures are anticipated on a large enhanced recovery project at Zama Lake which will take two years to complete. This project will result in very significant additions to the Company's recoverable crude oil reserves from Zama properties, but is not expected to have any impact on its production rates until 1971. A large share of the exploration activities in 1969 will be directed toward evaluation of prospects on the Company's extensive land holdings in northwestern Alberta and adjoining areas of British Columbia and the Northwest Territories.

The successful operating results achieved in 1968 attest to the competence and effort of employees at all organizational levels. The directors wish to record their recognition and appreciation of the employees' important contributions to the continued progress and growth of the Company.

Submitted on behalf of the Board of Directors:

L. J. Richards
President

Calgary, Alberta
March 7, 1969

General Review

General Review
Exploration

URANIUM

General – The Company's total expenditures on exploration, including both capital and expense items, reached a record level of $19,408,000 in 1968 and were $2,426,000 greater than the amount spent in 1967. Acreage acquisition costs totalled $5,766,000, an increase of $4,273,000, but exploratory drilling expenditures were reduced by $2,750,000 to $5,303,000. Exploration expenses were up $903,000, of which $82,000 represented costs associated with a new minerals exploration department established in July 1968. This new department will carry out a continuing program of exploration for uranium and base metals, with the major emphasis directed toward uranium in view of its increasing importance as an energy source and the prospects for rapid growth in demand during the 1970's.

PEI

Petroleum exploration activities in 1968 were mainly concentrated in the prospective areas of Alberta, Saskatchewan, and British Columbia and adjoining areas in the Northwest Territories. The Company also conducted detailed marine geophysical surveys on its extensive holdings in the Gulf of St. Lawrence. These surveys have provided encouraging prospects that warrant exploratory tests. It is anticipated that drilling on these prospects will be initiated within the next 18 months.

Discoveries and Extensions – A major extension of the Kaybob South natural gas field in west central Alberta and discoveries in the Zama Lake area of northwestern Alberta and in the Petitot area of northeastern British Columbia were the highlights of the Company's exploratory drilling activities in 1968. These and other potentially significant discoveries and extensions are identified on the map appearing on pages 14 and 15.

Early in 1968, the Company participated in a natural gas discovery which, together with two other discoveries made almost simultaneously by other members of the industry, established a major southeasterly extension of the Kaybob South Devonian sour gas reservoir. This initiated a very active exploration and step-out drilling program by the Company and the industry. By year end the proven limits of this field had been extended to cover an area about 32 miles long by two to four miles wide, making this one of the largest gas reservoirs in Canada. The Company has varying ownership interests equivalent to approximately 12,800 net acres within the currently defined field limits and is actively engaged in developing the necessary facilities to initiate production from the newly extended field area.

At Zama Lake the Company drilled 7 exploratory tests during 1968 on wholly-owned acreage and 4 were successfully completed as oil wells with natural gas encountered in overlying formations. At year end the Company owned 45,760 net lease acres and 15,040 net reservation acres in its Zama block. Additional exploratory and development drilling is planned on the block in 1969 and a number of exploratory tests will also be drilled on wholly-owned blocks in the general area.

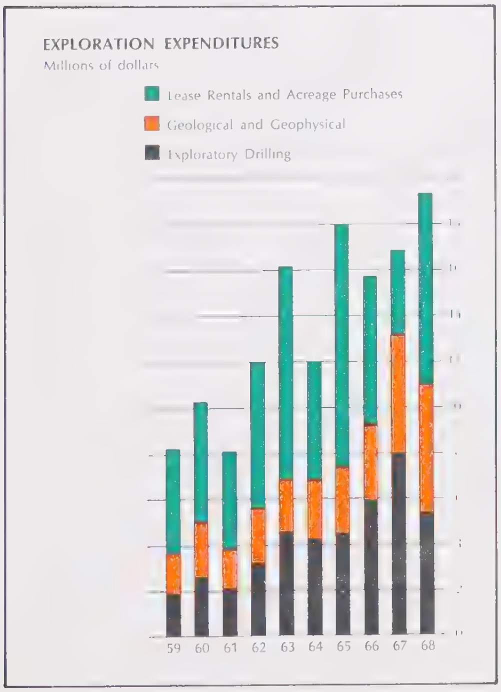
In the Petitot area of northeastern British Columbia, the Company participated in a natural gas discovery in a Middle Devonian formation. The Company owns a 50% interest in the 5,760 acre lease block on which the well was drilled and a 100% interest in about 248,000 acres of lease and permit lands adjacent to this well. Additional geophysical and drilling activity is planned for 1969.

At East Marlboro, in west central Alberta, a natural gas discovery was made in a Mississippian formation. The Company owns an approximate 21% interest in the 4,480 acre lease block on which the well was

drilled and has substantial interests in several adjacent lease blocks. The Company also discovered natural gas in Middle Devonian formations at Shekilie in northwestern Alberta, Cameron Hills in the Northwest Territories and participated in a natural gas discovery at Cameron Hills in northern Alberta. The discoveries at Shekilie and Cameron Hills, Northwest Territories were made on wholly-owned permits of 19,200 acres and approximately 192,000 acres respectively. At Cameron Hills, Alberta the Company has a 50% interest in the 5,120 acre lease block on which the well was drilled and a 100% interest in approximately 136,000 adjacent lease acres. Additional wells will be drilled in 1969 to evaluate the potential of these discoveries.

Acreage Holdings – During 1968 the Company acquired 3,528,000 acres of petroleum and natural gas rights, of which 1,944,000 acres were purchased at a cost of $5,766,000, 583,000 acres were acquired under a purchase option exercised in 1969 at a cost of $583,000, and 1,001,000 acres were obtained through filings and other acquisitions that did not

Tracked seismograph vehicles used for freedom of access in muskeg areas



SIGNIFICANT DISCOVERIES AND EXTENSIONS IN 1968

Name of Field or Area	Discoveries and Extensions Number	Nature	Producing Formation	Approx. Depth
Alberta				
Zama Lake	4	Oil & Gas	Devonian	5,000′
Kaybob South	1	Gas	Devonian	11,000′
East Marlboro	1	Gas	Mississippian	8,500′
Shekilie	1	Gas	Devonian	5,200′
Cameron Hills	1	Gas	Devonian	3,200′
British Columbia				
Petitot	1	Gas	Devonian	6,500′
Northwest Territories				
Cameron Hills	1	Gas	Devonian	4,600′

require bonus payments. A major portion of the cash expenditures was incurred for 204,000 permit acres in northeastern British Columbia purchased at a cost of $1,966,000 and 2,720 acres of leases in the Zama Lake area which cost $1,497,000. Interests equivalent to 30,000 net acres, which had been held by other participants in jointly owned Company leases in the Athabasca Tar Sands, were acquired during the year at a cost of $412,000. Offshore holdings on the East Coast were expanded through the acquisition of 1,160,000 net permit acres in the Gulf of St. Lawrence, purchased for $116,000. Permits totalling 174,000 acres in the Willow Lake area of the Northwest Territories were acquired for $174,000. Subsequent to the announcement of the major oil discovery at Prudhoe Bay in Alaska, the Company filed on 502,000 acres of offshore permits in the Beaufort Sea and acquired, at a price of $1 per acre, an additional 714,000 acres of offshore permits in the Franklin Bay area of the Northwest Territories. These holdings are located some 400 miles east of the Prudhoe Bay discovery.

Offshore

During the year the Company surrendered or released its interests in 2,343,000 acres of petroleum and natural gas rights. These included 1,623,000 acres released after geological and geophysical evaluation, 584,000 acres surrendered under government regulations on conversion of permits and reservations to lease status, and interests equivalent to 136,000 net acres assigned to other companies in return for drilling wells on Company lands. In addition, 73,000 acres were sold during the year and 69,000 acres were transferred to the developed category.

At year end the Company held 20,204,000 net acres of undeveloped petroleum and natural gas rights acquired at a total cost of $31,497,000. Including the purchase price of acreage held under options, this was equivalent to an average cost of $1.59 per acre. Rental payments in 1968 totalled $2,572,000.

UNDEVELOPED PETROLEUM AND NATURAL GAS RIGHTS
Net Acreage Holdings as of December 31, 1968

Location	Crown Permits or Reservations (1)	Leaseholds	Hudson's Bay Company Lands (2)	Fee Lands	Total
Alberta	1,555,000	1,465,000	1,505,000	85,000	4,610,000
Saskatchewan	1,935,000	384,000	2,330,000	102,000	4,751,000
British Columbia	393,000	679,000	6,000	–	1,078,000
Northwest Territories (3)	3,571,000	–	–	–	3,571,000
Maritimes	5,405,000	–	–	–	5,405,000
Manitoba	–	–	700,000	89,000	789,000
	12,859,000	2,528,000	4,541,000	276,000	20,204,000

(1) Convertible into leases to the extent of approximately 50%.

(2) Held under an agreement which permits conversion to leases at any time up to December 31, 1999 without payment of any bonus.

(3) Includes 583,000 acres in the Franklin Bay area held under purchase option exercised in 1969.

General Review Drilling

During the year the Company participated in drilling 166 wells, a decline of approximately 18.2% from the previous year when its exploratory drilling activity was at an unusually high level. In terms of net interests, 38 exploratory wells and 42 development wells were completed in 1968. In addition to this direct participation drilling, royalty interests were retained in 39 wells completed on Company properties and acreage contributions were made to 5 exploratory tests drilled adjacent to its land holdings.

The 58 exploratory completions in which the Company participated during 1968 resulted in 13 discoveries or field extensions, the more significant of which are listed in the table on page 7. These exploratory completions included 19 farmout wells in which all or part of the drilling costs were borne by other companies in exchange for partial interests in the lands on which the wells were drilled. Through these farmouts the Company participated in four discoveries in which it retained interests equivalent to 1.8 net wells. On a net well basis, the geographical distribution of the 1968 exploratory completions was 23.9 wells in Alberta, 10.0 in Saskatchewan, 2.8 in British Columbia and 1.5 in the Northwest Territories.

The Company's participation in 108 development well completions in 1968 was equivalent to 42.4 net wells, a reduction of 13.5 net wells from the prior year. These included 16.2 net gas wells of which more than half were drilled in the Kaybob South field. Development oil well completions continued to decline and totalled 19.3 net wells as compared with 30.0 in the previous year. This reduction is representative of the performance of the petroleum industry in western Canada as a whole which has recorded a decline in the number of development oil well completions in each of the last three years. A shortage of proved development locations provides the principal reason for the downturn in oil well completions.

WELL COMPLETIONS	1968		1967	
Exploratory	**Gross**	**Net**	**Gross**	**Net**
Oil	6	4.8	22	19.9
Gas	7	3.9	11	8.0
Dry	45	29.5	61	33.3
Total	58	38.2	94	61.2
Average Depth		6,515′		5,239
Development				
Oil	33	19.3	51	30.0
Gas	61	16.2	42	17.1
Dry	14	6.9	16	8.8
Total	108	42.4	109	55.9
Average Depth		6,109′		6,429′

Lowering subsurface production equipment (above) into a new gas well

Pulling production tubing (lower picture) from a gas well during completion operations

General Review
Production

Crude Oil – The Company's net crude oil production averaged 42,452 barrels per day in 1968, a gain of 2,098 barrels per day or 5.2% over the previous year. The most important factor contributing to this gain was the additional production obtained from a full year's operation of wells completed during 1967 and from new wells completed during 1968. New oil from these sources averaged 3,400 barrels per day, of which 2,564 barrels per day came from wells in the Zama Lake field. Enhanced recovery projects and other miscellaneous factors also contributed additional volumes. Partially offsetting these gains were reductions averaging about 1,200 barrels per day due to the impact of changes in Alberta's prorationing system and approximately 1,000 barrels per day from natural decline in production from older wells.

The average wellhead price received by the Company for its 1968 crude oil production was $2.351 per barrel, slightly below the prior year's average of $2.362.

Five enhanced recovery projects were completed in 1968. These projects are designed to improve or maintain producing rates and ultimately recover a higher proportion of the oil contained in the reservoir. During the year the Company carried out extensive engineering studies and pilot field tests to assess the feasibility of a complex enhanced recovery scheme at Zama Lake. To date the results obtained from these studies have been favourable and it is anticipated that governmental approval for the project will be requested in 1969. Implementation of this $9,000,000 project will extend over two years and is expected to add in excess of 30,000,000 barrels to the Company's recoverable crude oil reserves. The project should also result in a significant increase in the Company's production rates at Zama Lake commencing in 1971.

The practice of consolidating the operations of a number of producers within a field into a unitized operation under the control of a single company has proven economically advantageous. During the year the Company continued its efforts in this direction and participated in the formation of 20 units, bringing the total number in which

CRUDE OIL PRODUCTION – NET
(Barrels per day)

	1968	1967
Alberta		
Pembina	7,543	7,182
Zama Lake	5,382	2,691
Virginia Hills	1,745	1,770
Sundre	1,655	1,854
Sturgeon Lake South	1,436	1,419
Kaybob South	1,353	1,448
Medicine River	1,336	1,437
Cessford	1,093	999
Bonnie Glen	822	722
Innisfail	879	980
Fenn-Big Valley	601	626
Garrington	597	636
West Drumheller	579	645
Other fields	6,783	6,977
Total	31,804	29,386
British Columbia		
Milligan Creek	3,804	3,912
Peejay	1,397	1,244
Other fields	509	537
Total	5,710	5,693
Saskatchewan		
South Success	979	1,235
Hummingbird	885	861
Other fields	3,055	3,163
Total	4,919	5,259
Manitoba	19	16
Total	**42,452**	**40,354**

it has an interest to 158. Of these, 27 are operated by the Company. A further 23 new or enlarged units were being negotiated at year end; it is expected that seven of these will be Company-operated.

Natural Gas and Associated Products – Sales of natural gas averaged 233.3 million cubic feet per day, an increase of 36.6 million cubic feet per day or 18.6% over the previous year. More than half of the increase was derived from a scheduled increase in contract sales from the Edson gas field. Other contributing factors were sales from new plants placed on stream during 1968 or late in 1967 and improved deliverability from a number of fields. Sales from the West Whitecourt plant averaged some six million cubic feet per day less than in 1967 as this facility was completely shut down during parts of May and June while damage resulting from a fire was being repaired. The average price realized on 1968 gas sales was 14.6 cents per thousand cubic feet, the same as in the previous year.

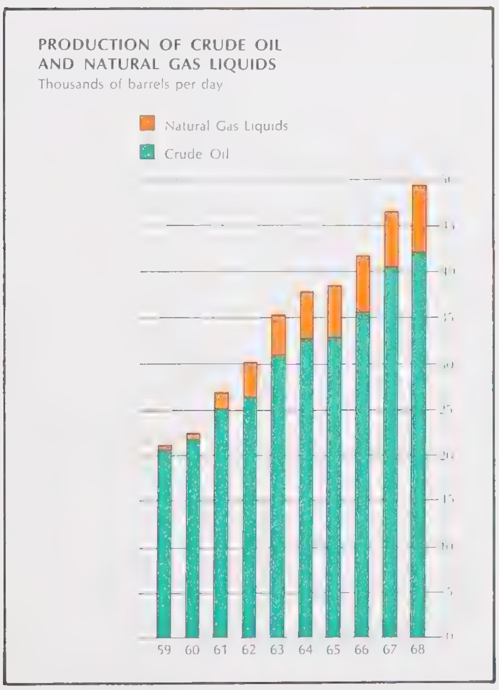
Production of natural gas liquids averaged 7,063 barrels per day, approximately the same volume as

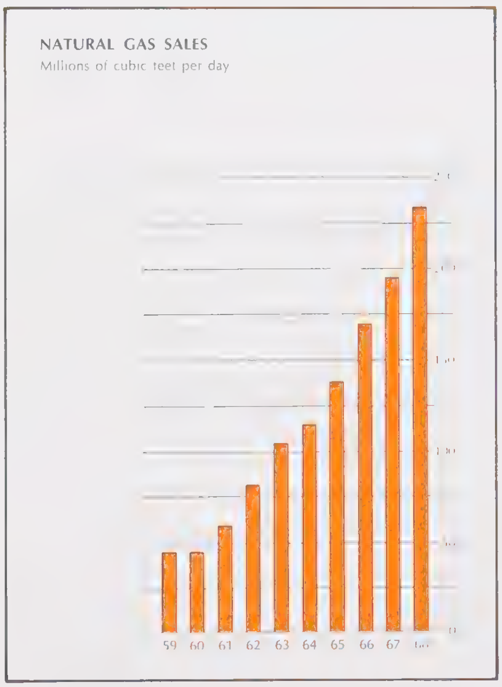
NATURAL GAS LIQUIDS PRODUCTION – NET
(Barrels Per Day)

	1968	1967
West Whitecourt	3,463	4,120
Westerose South and Homeglen-Rimbey	585	588
Harmattan-Elkton	577	508
Edson	527	389
Lone Pine Creek	340	254
Sylvan Lake	298	151
Caroline	247	–
Other locations	1,026	930
Total	7,063	6,940

NATURAL GAS SALES – NET
(Million Cubic Feet Per Day)

	1968	1967
Edson	60.5	39.4
Cessford	41.3	41.1
West Whitecourt	31.3	37.6
Clarke Lake	17.3	10.9
Lone Pine Creek	11.8	8.3
Pembina	9.7	9.7
Sylvan Lake	9.5	8.0
Westerose South and Homeglen-Rimbey	6.1	6.2
Caroline	4.2	–
Provost	4.6	3.9
Gilby	4.0	3.7
Wildcat Hills	3.2	2.8
Other locations	29.8	25.1
Total	233.3	196.7





Temporary accommodation (top picture) for construction workers at Kaybob South No. 1 gas plant

Exterior view (above) of compressor building at Kaybob South No. 1 gas plant

Gas compressors (below) at Kaybob South No. 1 gas plant

in 1967. Condensate production, at an average of 6,091 barrels per day, was down 191 barrels per day from the previous year due to loss of production while the West Whitecourt plant was shut down which was only partially offset by larger volumes from Edson, Lone Pine Creek and other plants. However, production of LPG (liquefied petroleum gases – i.e. propane and butane), increased by almost 48% during the year and averaged 972 barrels per day. Most of the gain in LPG production was due to output from the Sylvan Lake fractionation facilities which were brought into operation early in 1968 and from the new plant at Caroline which came on stream in August of 1968. The average price received for natural gas liquids was $2.54 per barrel as compared with $2.53 per barrel for the previous year.

Sulphur sales in 1968 totalled 148,452 long tons, 9,657 long tons or 6.1% less than the volume sold in the preceding year. However, revenues from sulphur sales increased by $363,000 or 10% due to the much smaller proportion derived from lower priced sales from the West Whitecourt plant – where deliveries are made in the form of hydrogen sulphide gas and do not involve any further processing or selling costs for the Company. Production and sales from the West Whitecourt plant totalled 89,677 long tons, or 60% of total sales in 1968, as compared with 130,181 long tons or 82% in the prior year. Additional sulphur production from Company-owned plants more than offset the decline in West Whitecourt volumes but, with Canadian supply exceeding market demand, part of this production was stockpiled. Sulphur prices declined sharply during 1968 but, due to the substantial volumes sold at the relatively strong prices which prevailed during the early part of the year, the average price realized by the Company from its direct sales in 1968 was $38.76 per long ton as compared

with $44.78 per long ton for the previous year.

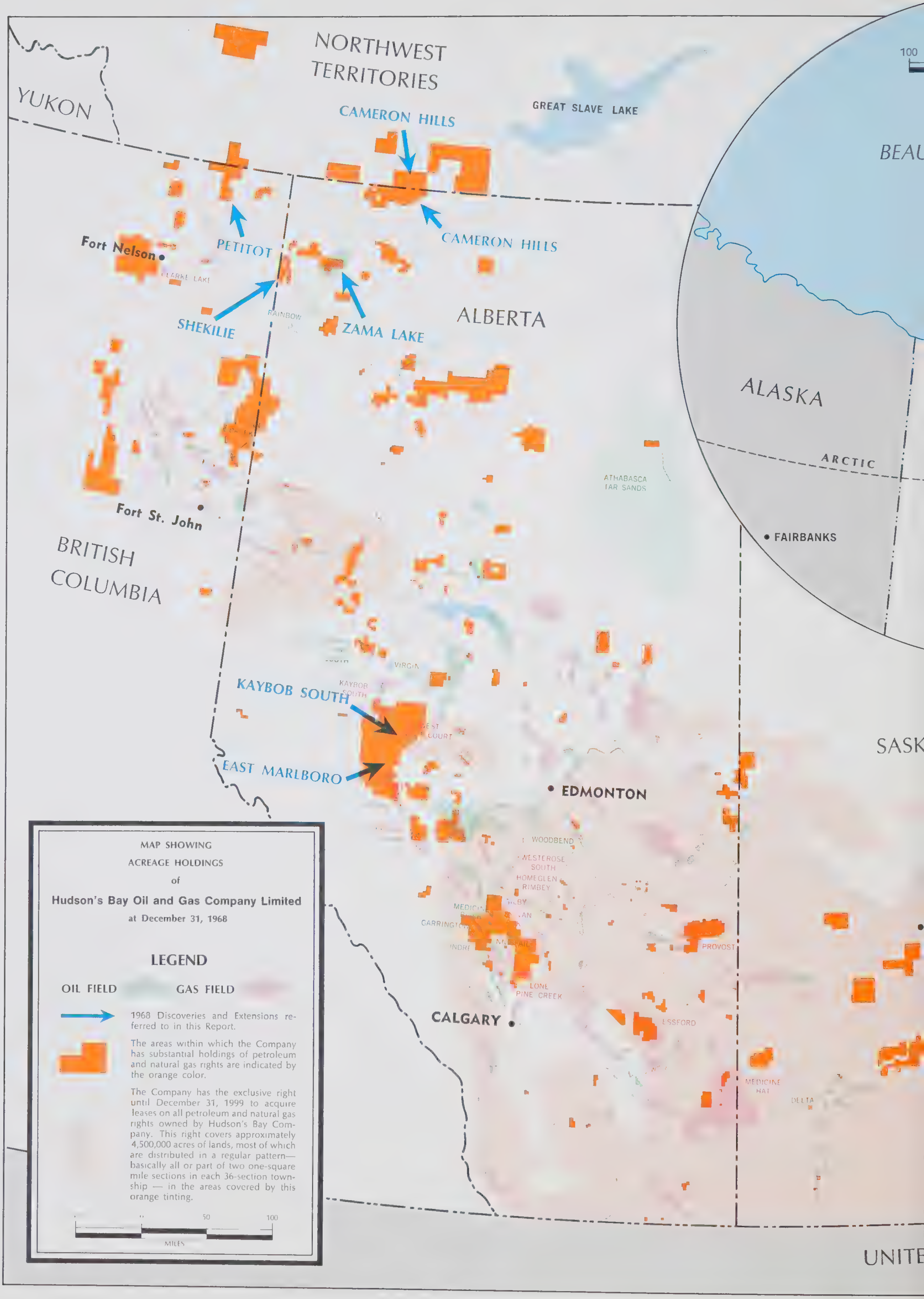
A major expansion of the Company's gas processing facilities was effected in 1968 with expenditures for this purpose totalling $26,428,000. Most of these outlays were incurred on the construction of four large new plants and a significant enlargement of the Lone Pine Creek plant. All of these projects have now been completed – the Bigstone plant in June, Caroline in August, Kaybob South late in December and Brazeau and Lone Pine Creek since the year end. The incremental additions to the Company's net production and sales volumes in 1969 from these five projects should total approximately 55 million cubic feet per day of natural gas, 6,000 barrels per day of natural gas liquids and 380 long tons per day of sulphur.

As a result of the recent major extensions to the Kaybob South gas reservoir, which occurred subsequent to the design and commencement of construction of the initial Kaybob South plant, two additional large plants will be constructed in this field. The Company will own a substantial interest in both and will be the operator of one of them which will be located on the same site as the initial facility. The third plant will be operated by another company. During the year the Company made application to the Alberta Oil and Gas Conservation Board for a permit to construct and operate the second Kaybob South plant but this application was denied because of the Board's concern over the volume of condensate which would come on the market when the field was fully developed. The Company is currently preparing a revised application which will be submitted at the same time as the application that is being prepared for approval of the third plant. It is anticipated that both applications will be dealt with at the same hearing and that this coordinated approach will result in a satisfactory resolution of the Board's concern with the volume of condensate production.

Reserves – The Company's net remaining recoverable reserves at year end (after deducting all royalties and interests owned by others) as estimated by its reservoir engineering staff are shown in the accompanying table. The estimated proved reserves include only such reserves as can reasonably be classified as proved in accordance with widely accepted American Petroleum Institute standards. Probable reserves include reserves which are substantially proved on undrilled tracts closely associated with proved reserves and for which geological control is sufficient to offer good indication of continuity of the producing horizon. Liquefied petroleum gases are not included in the reported reserves of natural gas liquids unless the facilities required for their extraction are in existence or are assured of construction. Incremental reserves from enhanced recovery techniques are included in the probable category when the required facilities are installed and are transferred to the proved category only after the anticipated performance from the facilities has been confirmed. Heavy oil in the Athabasca Tar Sands and Frenchman Butte areas has not been included.

NET RESERVES
December 31, 1968

	Crude Oil (barrels)	**Natural Gas Liquids** (barrels)	**Natural Gas** (million cubic feet)	**Sulphur** (long tons)
Proved	249,961,000	83,361,000	2,883,000	8,376,000
Probable	39,003,000	3,812,000	251,000	1,114,000
Total	288,964,000	87,173,000	3,134,000	9,490,000


NORTHWEST TERRITORIES
YUKON
GREAT SLAVE LAKE
CAMERON HILLS
CAMERON HILLS
PETITOT
Fort Nelson
SHEKILIE
RAINBOW
ZAMA LAKE
ALBERTA
ATHABASCA TAR SANDS
Fort St. John
BRITISH COLUMBIA
VIRGIN
KAYBOB SOUTH
KAYBOB SOUTH
EAST MARLBORO
EDMONTON
WOODBEND
WESTEROSE SOUTH
HOMEGLEN RIMBEY
GARRINGTON
PROVOST
LONE PINE CREEK
CALGARY
MEDICINE HAT
DELTA
SASK
UNITE
ALASKA
ARCTIC
FAIRBANKS
BEAU
100
MAP SHOWING ACREAGE HOLDINGS of Hudson's Bay Oil and Gas Company Limited at December 31, 1968
LEGEND
OIL FIELD
GAS FIELD
1968 Discoveries and Extensions referred to in this Report.
The areas within which the Company has substantial holdings of petroleum and natural gas rights are indicated by the orange color.
The Company has the exclusive right until December 31, 1999 to acquire leases on all petroleum and natural gas rights owned by Hudson's Bay Company. This right covers approximately 4,500,000 acres of lands, most of which are distributed in a regular pattern—basically all or part of two one-square mile sections in each 36-section township — in the areas covered by this orange tinting.
50
100
MILES

0
100
200
MILES
ANTICOSTI ISLAND
QUEBEC
Gulf of St. Lawrence
NFLD.
RT SEA
BANKS
ISLAND
Amundsen Gulf
NEW
BRUNSWICK
P.E.I.
CHARLOTTETOWN
MONCTON
INUVIK
NORTHWEST
TERRITORIES
SAINT JOHN
CIRCLE
GREAT BEAR LK.
SCOTIA
NOVA
HALIFAX
Atlantic Ocean
NORMAN WELLS
UKON
0
50
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MILES
MANITOBA
CHEWAN
ONTARIO
LAKE
WINNIPEG
LAKE
WINNIPEGOSIS
KATOON
LAKE
MANITOBA
REGINA
WINNIPEG
STATES OF AMERICA

General Review

Supply and Transportation

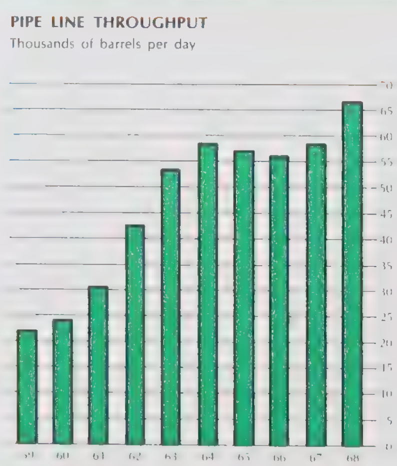
Pipe Lines – The volume of crude oil and natural gas liquids gathered and transported through the Company's pipe line systems averaged 66,578 barrels per day during 1968, an increase of 7,766 barrels per day or 13.2% over the previous year. The larger volumes primarily resulted from increased availability of condensate from gas plants in the Pincher Creek area and the effect of the first full year's movement of butane to Montana markets through the trunk line system.

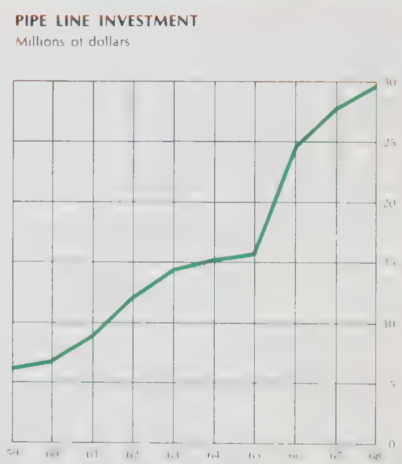
Additions and extensions to the Company's pipe line systems during the year resulted in an expenditure of $2,697,000 and brought the total investment in pipe line properties to $29,877,000 at year end. At that date the systems comprised 420 miles of trunk lines and 423 miles of gathering facilities. Construction during the year included an expansion of pumping facilities at Sundre and Pincher Creek, and a gathering system to transport LPG from gas plants at Sylvan Lake and Caroline.

The Company has interests in two other pipe line companies whose shares are owned by a number of oil producers in the areas served by these systems. In 1968 the Company increased its ownership share in Peace River Oil Pipe Line Co. Ltd. to 16% through the purchase of additional shares issued to assist in financing a major expansion program. This program included a 295-mile, 20-inch trunk line extension to the Zama Lake area and a partial looping of its existing 12-inch line from Fox Creek to Edmonton. The Company's other pipe line investment consists of a 4% ownership share in Producers Pipelines Ltd. which operates an extensive crude oil gathering and trunk line system in southeastern Saskatchewan.

Other Operations – During 1968 the Company continued to expand its crude oil trading operations and its wholesale marketing and transportation of LPG. The volumes handled through these activities increased by 48% and 103% respectively with the latter reflecting the first full year of operation of the Company's butane storage terminals at Sundre and Pincher Creek and the commencement of LPG production from Company plants at Sylvan Lake and Caroline. The three retail propane companies acquired in 1967 were consolidated under the name of Blue Flame Propane Ltd., and operations extended into the Peace River area of Alberta and into southwestern Manitoba through arrangements with private firms or individuals to handle propane on a consignment basis. The volume of sales handled through this operation increased by 25% during 1968 and it now provides the largest individual market for the Company's growing propane production.

Pipe laying operations. This pipe is covered to prevent corrosion





Block valve on the
Sundre-Pincher Creek
trunkline a short distance
west of Calgary

General Review Employees

At year end the Company and its subsidiaries had a total of 849 employees, an increase of 111 over the previous year. Most of the additions were required for staffing three new gas plants and expanded production operations.

The total costs of salaries, wages and employee benefits, on a consolidated basis, were $7,549,000 in 1968, an increase of 23.1% over the prior year. The additions to the work force accounted for a major part of this increase in costs.

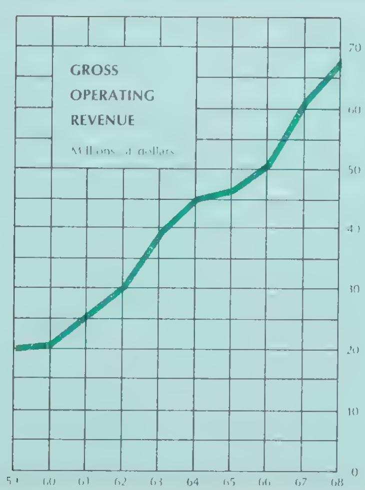
The Company continued to expand its program of employee development in 1968. Training was provided for managerial and supervisory personnel through in-Company presentations by consultants and through courses available at educational institutions. Through its Financial Aid to Education Program, the Company supports higher education by donations and by awarding scholarships to sons and daughters of employees, as well as to other deserving students. The Plan also provides for Company reimbursement of 75% of the cost of work-related courses completed by the employees on their own time and more than one-fifth of the staff took advantage of this assistance during the year.

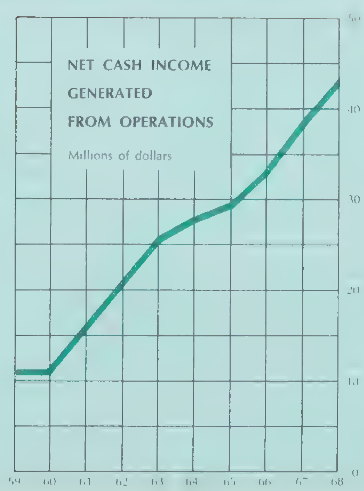
As the result of sound safety programs and a conscientious effort by all employees to observe safe work practices, the frequency and severity of both personal injuries and vehicle accidents in 1968 continued to be among the lowest in the industry. All Company operated gas plants that were eligible received government and industry awards in recognition of prolonged periods of accident-free operation.

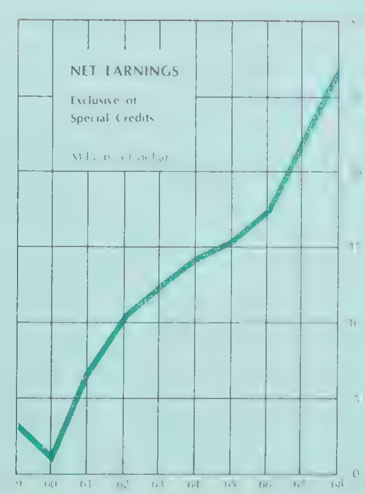
Routine inspection (top left) of safety equipment at Caroline gas plant

Opening a valve (left) on a gas wellhead

Financial Review







Financial Review

In 1968 net earnings reached a new high of $26,790,000, a 21% increase over the $22,139,000 earned in 1967. After deducting preferred dividends, earnings per common share rose 16.0% to $1.38 from $1.19 in the previous year. Net cash income generated from operations totalled $42,751,000, an 11.7% increase over the $38,277,000 generated in 1967, and after provision for preferred dividends amounted to $2.25 per common share as compared with $2.07 in the prior year.

Dividends declared for the year totalled $10,647,000 as compared with $9,522,000 in 1967. The annual dividend on the common stock was unchanged from the prior year at 50 cents per share for a total of $9,147,000. Four regular quarterly dividends of 62.5 cents per share (total $1,500,000) were declared on the Series A preferred shares in 1968 as compared with only one quarterly dividend ($375,000) in 1967 subsequent to the issue of the shares in October of that year.

Gross operating revenues totalled $66,884,000 in 1968, an increase of $5,196,000 or 8.4%. The major sources of operating revenues and a comparison with the prior year are shown in the accompanying table. Explanations of the changes from the prior year are contained in the operations sections of the report. Revenues from interest, rentals and other miscellaneous sources totalled $2,856,000, an increase of $1,189,000 due primarily to additional interest income from larger holdings of short-term investments.

Total expenses for the year were $42,950,000, an increase of $1,734,000 or 4.2%. Cash expenses, at $26,989,000, were up $1,911,000 principally due to additional costs associated with the larger production volumes and an expanded exploration program. Non-cash expenses decreased by $177,000 with larger provisions for depreciation and amortization offset by a reduction in the provision required for depletion and larger credits from bond retirements and gains on disposals of assets.

The Company did not incur any liability for income taxes in 1968 except for a very minor amount in one small subsidiary and accordingly no other provision for income taxes was made in the financial statements. As explained in Note 4 to the statements, certain types of expenditures that are capitalized in the Company's financial records are expensed currently for tax purposes. Primarily as a result of these timing differences, the Company and its subsidiaries carried forward into 1968 an accumulation of unused tax deductible expenses totalling approximately $13,500,000. This carry-forward was more than sufficient to offset earnings for the year calculated on a tax basis which included the deduction as a current expense of the $9,866,000 paid for the "carved out production payments" described below. At year end the aggregate amount of carry-forwards available to offset future taxable income of the Company and its subsidiaries was approximately $9,000,000.
Because accounting for income taxes has

GROSS OPERATING REVENUES

Category	Amount in 1968	Percentage of Total	Amount in 1967	Percentage of Total	Increase (Decrease) from 1967 Amount	Per Cent
Crude Oil	$36,671,000	54.8	$34,848,000	56.5	$1,823,000	5.2
Natural Gas Liquids	6,490,000	9.7	6,314,000	10.2	176,000	2.8
Natural Gas	12,445,000	18.6	10,483,000	17.0	1,962,000	18.7
Sulphur	4,004,000	6.0	3,641,000	5.9	363,000	10.0
Processing Non-owned Gas	1,381,000	2.1	1,389,000	2.3	(8,000)	(.6)
Pipe Line and Product Distribution	5,893,000	8.8	5,013,000	8.1	880,000	17.6
Total	$66,884,000	100.0	$61,688,000	100.0	$5,196,000	8.4

become a very controversial subject, the following comments are provided to explain the Company's practices. There are two basic methods of accounting for income taxes – the "taxes payable" basis and the "deferred tax" basis. On the "taxes payable" basis, which the Company employs, the provision made for taxes represents the estimated amount of taxes that will be assessed for the period or, in other words, the actual tax liability for the year. On the "deferred tax" basis provision is made not only for the current tax liability but also for the contingent future liability for taxes that would have been payable currently if the amount of depreciation and other similar charges claimed for the year in the current tax filing were limited to the same amounts as were deducted for the year in the Company's financial statements. In other words, the "deferred tax" basis makes provision for the full theoretical amount of income taxes that would have been payable on reported income for the year if the timing differences entering into the computation of reported income and taxable income for the year had been eliminated.

Until 1968 either of these methods of providing for income taxes had been considered acceptable accounting practice, but The Accounting and Auditing Research Committee of The Canadian Institute of Chartered Accountants has issued a bulletin recommending that for all years ending after January 1, 1968 income taxes should be calculated on the "deferred tax" basis. This recommendation has been strongly opposed by a number of companies in the Canadian petroleum industry who feel that it is an inappropriate method of tax accounting for the industry. The Company believes that its practice of recording actual taxes payable in its financial statements and providing full disclosure of its contingent liability for deferred taxes in a note to the financial statements is the best method of reporting to shareholders.

In 1968 the Company's expenditures for property, plant and equipment totalled $52,356,000, an increase of $18,040,000 or 52.6% over the $34,316,000 spent in the prior year. Outlays for gas processing plants and related facilities totalled $26,428,000, an increase of $20,379,000, and acreage acquisition costs, at $5,766,000, were up $4,273,000. These large increases were partially offset by reductions of $2,750,000 in exploratory drilling expenditures, $2,478,000 in outlays for development drilling and production facilities, and $1,778,000 in expenditures for pipe line and product distribution facilities. The foregoing expenditures include $1,060,000 spent for the acquisition of developed gas properties and facilities in the Brazeau field.

Proceeds from disposal of capital assets during the year totalled $2,629,000, with the major item being $1,000,000 received from the sale of partially developed gas properties in the Calling Lake field.

The $52,356,000 of capital expenditures reported for the year do not include $9,866,000 paid in December for rights to production from certain properties for a limited period (commonly referred to as "carved out production payments"). The costs of these rights were entirely financed through non-recourse loans secured by an assignment of the rights and repayable both as to principal and interest exclusively from the proceeds of production from the assigned rights. Accordingly, these transactions are recorded on the Balance Sheet on a net basis merely for the purpose of proper disclosure.

The amount of funds required in 1968 for capital expenditures, dividends, retirement of long-term debt and miscellaneous expenditures substantially exceeded the amount of net cash income generated from operations. Consequently, working capital was reduced by $25,543,000 as shown in the statement of Sources and Uses of Funds on page 25. However, the Company had built up a strong liquid position in anticipation of these outlays and still had $16,510,000 of cash and short-term investments on hand at year end. Although a large amount of debt was retired during the year, this was more than offset by the increase in retained earnings and the Company's total debt and equity capital was enlarged to $243,551,000 at year end. On that date, long-term debt, including the portion due within one year, represented 27.5% of the total capital employed and the other 72.5% consisted of the shareholders' equity in the Company.

Consolidated Balance Sheet / December 31, 1968 and 1967 / Huds

Assets

	1968	1967
CURRENT ASSETS		
Cash	$ 1,558,000	$ 903,000
Short-term investments at cost, which approximates market	14,952,000	37,613,000
Accounts receivable (Note 5)	18,862,000	14,819,000
Inventories of crude oil, products and supplies at or below average cost	2,015,000	2,526,000
Total Current Assets	37,387,000	55,861,000
PROPERTY, PLANT AND EQUIPMENT (Notes 1 and 2)		
At cost	337,546,000	294,583,000
Less: Accumulated depreciation, depletion and amortization	105,718,000	96,318,000
	231,828,000	198,265,000
OTHER ASSETS		
Production payments receivable	9,866,000	–
Less: Loans repayable therefrom (Note 6)	9,866,000	–
	–	–
Investments in non-controlled companies at cost	1,937,000	1,019,000
Unamortized bond discount and expense	404,000	463,000
Unamortized goodwill	304,000	343,000
Deposits, deferred charges and miscellaneous assets at cost	2,467,000	2,222,000
	5,112,000	4,047,000
	$274,327,000	$258,173,000

Approved on behalf of the Board:

L. J. Richards ...., DIRECTOR

D G Jones ...., DIRECTOR

Liabilities and Shareholders' Equity

	1968	1967
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Note 5)	$ 19,611,000	$ 12,872,000
Dividends payable (Note 5)	9,522,000	9,522,000
Long-term debt due within one year (Note 6)	4,430,000	4,100,000
Total Current Liabilities	33,563,000	26,494,000
LONG-TERM DEBT (Note 6)		
First mortgage sinking fund bonds	52,593,000	55,743,000
Term loan	10,000,000	14,000,000
	62,593,000	69,743,000
DEFERRED CREDIT RE OFFICE BUILDING (Note 7)	1,643,000	1,551,000
SHAREHOLDERS' EQUITY		
Capital stock (Note 8)		
Authorized		
Preferred – $50 par value – 1,500,000 shares		
Common – $2.50 par value – 25,000,000 shares		
Issued and outstanding		
5% Cumulative redeemable convertible preferred shares series A – 600,000 shares	30,000,000	30,000,000
Common – 18,294,044 shares	45,735,000	45,735,000
Contributed surplus	21,095,000	21,095,000
Retained earnings	79,698,000	63,555,000
	176,528,000	160,385,000
	$274,327,000	$258,173,000

Contingency (Note 9)

See accompanying notes

Consolidated Statement of Earnings

Years ended December 31, 1968 and 1967

	1968	1967
REVENUES		
Gross operating revenues	$66,884,000	$61,688,000
Interest, dividends, rentals and other	2,856,000	1,667,000
	69,740,000	63,355,000
CASH EXPENSES		
Exploration	8,339,000	7,436,000
Production	11,062,000	10,134,000
Pipe line and product distribution	1,859,000	1,415,000
General administrative (Note 3)	1,670,000	1,821,000
Interest on long-term debt	4,047,000	4,243,000
Other interest charges	12,000	29,000
	26,989,000	25,078,000
NET CASH INCOME GENERATED FROM OPERATIONS	42,751,000	38,277,000
NON-CASH EXPENSES		
Depletion	4,814,000	5,221,000
Depreciation	6,353,000	5,788,000
Amortization of undeveloped oil and gas rights	1,764,000	1,696,000
Dry holes and abandonments	3,852,000	3,706,000
Other items – net	(822,000)	(273,000)
	15,961,000	16,138,000
NET EARNINGS (Notes 1 and 4)	$26,790,000	$22,139,000
NET EARNINGS PER COMMON SHARE (after preferred dividends)	$1.38	$1.19

Consolidated Statement of Retained Earnings

Years ended December 31, 1968 and 1967

	1968	1967
Retained Earnings – January 1	$63,555,000	$50,938,000
Net Earnings for Year	26,790,000	22,139,000
	90,345,000	73,077,000
Dividends Declared		
Preferred shares	1,500,000	375,000
Common shares	9,147,000	9,147,000
	10,647,000	9,522,000
Retained Earnings – December 31	$79,698,000	$63,555,000

See accompanying notes

Consolidated Statement of Sources and Uses of Funds

Years ended December 31, 1968 and 1967

	1968	1967
SOURCES OF FUNDS		
Net cash income generated from operations	$ 42,751,000	$38,277,000
Preferred stock	–	30,600,000
First mortgage sinking fund bonds	–	10,000,000
Proceeds from sale of properties and investments	2,629,000	1,121,000
TOTAL FUNDS AVAILABLE	$ 45,380,000	$79,998,000
USES OF FUNDS		
Expenditures for property, plant and equipment	$ 52,356,000	$34,316,000
Reduction of long-term debt	7,150,000	6,910,000
Dividends declared	10,647,000	9,522,000
Miscellaneous – net	770,000	1,613,000
TOTAL FUNDS USED	$ 70,923,000	$52,361,000
RESULTING INCREASE (DECREASE)		
In cash and short-term investments	$ (22,006,000)	$32,068,000
In other working capital items	(3,537,000)	(4,431,000)
IN TOTAL WORKING CAPITAL	$ (25,543,000)	$27,637,000

See accompanying notes

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Hudson's Bay Oil and Gas Company Limited and subsidiary companies as of December 31, 1968 and the consolidated statements of earnings, retained earnings and sources and uses of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, except that provision for taxes on income has not been made on the deferred tax basis in respect of depreciable assets as explained in Note (4), these consolidated financial statements present fairly the financial position of the Company and subsidiary companies at December 31, 1968 and the results of their operations and the sources and uses of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Calgary, Alberta
February 3, 1969

Notes to the Consolidated Financial Statements

(1) ACCOUNTING PRINCIPLES:

The consolidated financial statements include the accounts of Hudson's Bay Oil and Gas Company Limited and its subsidiary companies, each of which is wholly owned. The consolidated net earnings include the results of subsidiary companies from their respective dates of acquisition and where the purchase price of shares of subsidiaries exceeded their net book values the excess has been allocated to the related assets and additional depreciation, depletion and amortization has been provided accordingly.

Exploration expenses are charged against earnings as incurred.

Costs of oil and gas rights are capitalized when acquired. A regular charge is made to earnings for amortization of undeveloped oil and gas rights and when undeveloped rights are surrendered the cost is charged against the accumulated amortization. When rights are proven to be productive the original cost is transferred to the developed oil and gas rights account and written off by a depletion charge calculated on the unit of production method.

All costs of drilling wells are initially capitalized. If, on completion, a well is not capable of commercial production its cost is immediately written off. The costs of successful wells, other than equipment costs, are written off by depletion charges on the unit of production method in the same manner as the cost of developed oil and gas rights.

Plant, pipe line and equipment costs are depreciated on the straight line method at rates estimated to write off the costs over the useful lives of the assets, except that certain pipe line assets are depreciated on the unit of throughput method.

(2) PROPERTY, PLANT AND EQUIPMENT:

	Assets at Cost	Accumulated Depreciation	Accumulated Depletion	Accumulated Amortization	Net
Undeveloped oil and gas rights	$ 31,497,000	$ –	$ –	$3,537,000	$ 27,960,000
Developed oil and gas rights	32,762,000	–	10,268,000	–	22,494,000
Oil and gas rights on Hudson's Bay Company lands	1,000	–	–	–	1,000
Wells and related facilities	174,380,000	26,779,000	50,054,000	–	97,547,000
Plants and related facilities	64,013,000	7,697,000	–	–	56,316,000
Pipe line and product distribution facilities	32,429,000	6,401,000	–	–	26,028,000
Other	2,464,000	982,000	–	–	1,482,000
Total – December 31, 1968	$337,546,000	$41,859,000	$60,322,000	$3,537,000	$231,828,000
Total – December 31, 1967	$294,583,000	$36,233,000	$56,619,000	$3,466,000	$198,265,000

Pursuant to an agreement the Company has an exclusive right until December 31, 1999, to lease any or all of the petroleum and natural gas rights owned by Hudson's Bay Company. The exercise of this right requires no bonus payment. The Hudson's Bay Company lands subject to this agreement totalled 4,541,000 acres at December 31, 1968, primarily in the Provinces of Alberta, Saskatchewan and Manitoba. A nominal value of $1,000 has been assigned to these rights.

(3) REMUNERATION OF DIRECTORS:

Remuneration paid by the Company and its subsidiaries to the Company's directors, including directors holding salaried employment as officers, totalled $117,000 in 1968. Remuneration paid to other senior officers totalled $151,000.

(4) INCOME TAXES:

Under the provisions of the Income Tax Act and Regulations, the Company and each of its subsidiaries is permitted to deduct currently exploration expenses, the acquisition costs of petroleum and natural gas rights and the costs of drilling both successful and unsuccessful wells and to carry forward any excess of such deductions over income. They are also allowed for income tax purposes to deduct capital cost allowances greater than the depreciation recorded in their accounts. As a result of using these provisions, no income taxes were payable by any of the companies in respect of 1968 operations except for approximately $20,000 payable by one small subsidiary. At December 31, 1968 the companies had approximately $9,000,000 of unused deductions available for carry forward against taxable incomes of future years and undepreciated capital cost of depreciable assets of approximately $66,100,000. The comparable amounts at December 31, 1967 were approximately $13,500,000 and $43,700,000 respectively.

If the Company had followed the deferred tax accounting concept in respect of all timing differences between accounting income and taxable income, provisions for deferred taxes estimated at $9,389,000 for 1968 and $7,623,000 for 1967 would have been required and the cumulative amount at December 31, 1968 would have been approximately $45,697,000. An alternative method of providing for deferred taxes in the Canadian petroleum industry is to exclude the effect of timing differences related to drilling costs and acquisition costs of oil and gas rights. On this basis the resulting provision for deferred income taxes (primarily related to timing differences with respect to depreciable assets) would have been an estimated $2,531,000 in 1968 and $1,355,000 in 1967 and the cumulative amount at December 31, 1968 would have been approximately $13,206,000.

(5) AMOUNTS OWING TO AND FROM AFFILIATED COMPANIES:

Accounts receivable and accounts payable include $4,380,000 and $96,000 respectively resulting from transactions in the normal course of business with Continental Oil Company and its subsidiaries. Dividends payable include $6,013,000 due to Continental Oil Company.

(6) LONG-TERM DEBT:

First Mortgage Sinking Fund Bonds	Amount Outstanding After Deducting Sinking Fund Credits — Due Within One Year	Amount Outstanding After Deducting Sinking Fund Credits — Long-Term Portion
4% Series A, due May 1, 1975 – remaining sinking fund requirements $330,000 in 1969, $1,000,000 per annum – 1970 to 1974 and $10,000,000 at maturity	$330,000	$15,000,000
5% Series B, due October 1, 1971 – remaining sinking fund requirements $100,000 in 1969 and $50,000 per annum in 1970 and 1971	100,000	100,000
5¾% Series C, due August 1, 1977 – remaining sinking fund requirements $14,000 in 1970, $160,000 per annum 1971 to 1976 and $100,000 at maturity	–	1,074,000
5½% Series D, due June 15, 1983 – remaining sinking fund requirements $919,000 in 1970, $1,500,000 per annum 1971 to 1982 and $7,500,000 at maturity	–	26,419,000
7% Series E, due January 3, 1987 – sinking fund requirements $500,000 per annum 1971 and 1972, $600,000 per annum 1973 to 1987	–	10,000,000
Total – December 31, 1968	$430,000	$52,593,000
Total – December 31, 1967	$100,000	$55,743,000

Sinking fund credits, established through the purchase and surrender to the trustee of bonds, have been treated as a reduction of the next succeeding sinking fund requirements for the respective series. The First Mortgage Sinking Fund Bonds are secured under a Deed of Trust and Mortgage by a first fixed and specific mortgage and charge on certain petroleum and natural gas rights and by a first floating charge on all other property and assets of the Company, both present and future.

The term loan of $14,000,000 outstanding at December 31, 1968 (which includes $4,000,000 due within one year and included in Current Liabilities) is secured under Section 82 of the Bank Act (Canada) by an assignment of the Company's interest in hydrocarbon reserves underlying certain properties other than those specifically pledged under the Company's Deed of Trust and Mortgage securing its First Mortgage Sinking Fund Bonds. Interest is payable monthly at the prime bank rate for such loans. The principal outstanding is repayable in 14 quarterly installments of $1,000,000 each with the final payment due April 1, 1972.

The loans of $9,866,000 recorded as a deduction from production payments receivable were incurred for the purpose of financing the cost of acquiring certain petroleum natural gas rights which have been assigned as security for these loans. Since repayments of these loans and interest thereon is to be made exclusively from the proceeds of production from the assigned interest and the Company has no other obligation, the loans have been deducted from the production payments receivable.

(7) DEFERRED CREDIT RE OFFICE BUILDING:

On December 1, 1959 the Company sold its Calgary office building for $4,380,000 and simultaneously leased the property for an initial term of 25 years at annual net rentals of $153,000 to the date of death of the lessor (which occurred on December 14, 1968) and $296,000 annually thereafter. Under the terms of the lease the Company has an option exercisable until August 14, 1969 to repurchase the property at the original selling price and cancel the lease. The excess of the selling price over the depreciated value of the property at the date of sale and a charge in lieu of depreciation since that date have been recorded in the accounts as a deferred credit. The balance in this account will be credited to accumulated depreciation if the building is repurchased and otherwise will be credited against future rentals.

(8) CAPITAL STOCK:

The Preferred Shares Series A are redeemable at the option of the Company from October 15, 1972 through October 14, 1977 at $53.50 and thereafter at $51.00. At the option of the holder each Preferred Share Series A may be converted into one and one-fifth Common Shares at any time on or before October 15, 1972 or thereafter may be converted into one Common Share on or before October 15, 1977 or such earlier date as may result from notice of redemption of the shares.

At December 31, 1968 there were 720,000 Common Shares reserved for issue upon exercise of the rights of conversion attaching to the Preferred Shares Series A, being the maximum number of Common Shares that would be issued if all the Preferred Shares Series A were converted during the first conversion period.

(9) CONTINGENCY:

The Company has issued to and deposited with governmental authorities an aggregate of $1,355,000 of non-interest bearing demand notes to be held as security for the performance of work obligations in respect of certain exploratory rights.

In a certain future circumstance the Company would be obliged to purchase up to $2,258,000 of bonds of a pipe line company in which it has a share ownership. Currently no definitive assessment can be made as to the possible occurrence of this circumstance.

Hudson's Bay Oil and Gas Company Limited

Incorporated under the Laws of the Dominion of Canada

Board of Directors

A. W. TARKINGTON, New York, Chairman of the Board
President and a Director of Continental Oil Company

J. R. MURRAY, Winnipeg, Vice-Chairman of the Board
Managing Director of Hudson's Bay Company

T. N. BEAUPRÉ, Montreal
Chairman of the Board of Directors of Domtar Limited, and a Director of Hudson's Bay Company

M. J. FOLEY, Quebec
Vice-President and a Director of Anglo-Canadian Pulp and Paper Mills, Limited

W. E. GLENN, Houston
Executive Vice-President and a Director of Continental Oil Company

D. C. JONES, Calgary, Executive Vice-President of the Company

D. E. KILGOUR, Winnipeg
President and a Director of The Great-West Life Assurance Company, and a Director of Hudson's Bay Company

HERBERT H. LANK, Montreal
Chairman of the Board of Directors of DuPont of Canada Limited

L. J. RICHARDS, Calgary, President of the Company

J. S. ROYDS, New York
Senior Vice-President of Continental Oil Company

Officers

L. J. RICHARDS, President

D. C. JONES, Executive Vice-President

K. H. BURGIS, Financial Vice-President

R. J. HAMILTON, Vice-President, Exploration

S. G. OLSON, Vice-President, Production

R. F. HASKAYNE, Controller

F. J. MAIR, Treasurer

W. E. SELBY, Secretary

Ten Year Financial Review (1)

	1968	1967
GROSS OPERATING REVENUES		
Crude Oil	$ 36,671	34,848
Natural Gas Liquids	$ 6,490	6,314
Natural Gas	$ 12,445	10,483
Sulphur	$ 4,004	3,641
Processing Non-owned Gas	$ 1,381	1,389
Pipe Line and Product Distribution	$ 5,893	5,013
TOTAL	$ 66,884	61,688
EARNINGS AND DIVIDENDS		
Net Earnings (2)		
Total	$ 26,790	22,139
Per Common Share (after preferred dividends)	$ 1.38	1.19
Net Cash Income Generated from Operations		
Total	$ 42,751	38,277
Per Common Share (after preferred dividends)	$ 2.25	2.07
Preferred Dividends Declared	$ 1,500	375
Common Dividends Declared	$ 9,147	9,147
TOTAL DIVIDENDS DECLARED	$ 10,647	9,522
Per Common Share	$ .50	.50
Per Preferred Share	$ 2.50	.625
CAPITALIZATION		
Long-Term Debt (including portion due within one year)	$ 67,023	73,843
Shareholders' Equity	$ 176,528	160,385
TOTAL CAPITAL EMPLOYED	$ 243,551	234,228
Shareholders' Equity as % of Total Capital Employed	72.5%	68.5%
Number of Preferred Shares Outstanding	600,000	600,000
Number of Common Shares Outstanding	18,294,044	18,294,044
CAPITAL EXPENDITURES AND EXPLORATION EXPENSES		
Exploration Expenses		
Geological, Geophysical and Other Exploration Expenses	$ 5,767	5,156
Lease Rentals	$ 2,572	2,280
Acquisition of Oil and Gas Rights	$ 5,766	1,493
Exploratory Drilling	$ 5,303	8,053
Development Drilling and Production Facilities	$ 10,622	13,100
Plants and Related Facilities	$ 26,428	6,049
Pipe Line and Product Distribution Facilities	$ 3,305	5,085
Other	$ 932	536
TOTAL CAPITAL AND EXPLORATION EXPENDITURES	$ 60,695	41,752
EMPLOYEES AND SHAREHOLDERS		
Number of Preferred Shareholders	2,851	3,312
Number of Common Shareholders	8,864	9,254
Number of Employees	849	738

(1) With the exception of per share figures, dollar amounts are in thousands.

(2) Exclusive of special credits of $856,000 in 1962, $265,000 in 1960 and $943,000 in 1959.

(3) Includes $27,866,000 acquisition costs of Consolidated Mic Mac Oils Ltd. and Security Freehold Petroleums Limite

Ten Year Operating Review

	1968	1967
LIQUID HYDROCARBONS PRODUCTION – NET (Barrels per day)		
Crude Oil		
Alberta	31,804	29,386
British Columbia	5,710	5,693
Saskatchewan	4,919	5,259
Manitoba	19	16
TOTAL CRUDE OIL	42,452	40,354
Natural Gas Liquids (virtually all from Alberta)	7,063	6,940
TOTAL CRUDE OIL AND NATURAL GAS LIQUIDS	49,515	47,294
NATURAL GAS SALES – NET (Millions of cubic feet per day)	233.3	196.7
SULPHUR SALES – NET (Long tons per day)	406	433
PIPE LINE		
Throughput (Barrels per day)	66,578	58,812
Miles of Trunk Line	420	420
Miles of Gathering Facilities	423	366
WELL DATA		
NET DEVELOPMENT WELLS COMPLETED		
Oil	19.3	30.0
Gas	16.2	17.1
Dry	6.9	8.8
TOTAL	42.4	55.9
NET EXPLORATORY WELLS COMPLETED		
Oil	4.8	19.9
Gas	3.9	8.0
Dry	29.5	33.3
TOTAL	38.2	61.2
TOTAL GROSS WELLS COMPLETED	166	203
NET WELLS CAPABLE OF PRODUCTION		
Oil Wells	978.7	992.2
Gas Wells	201.1	189.7
TOTAL	1,179.8	1,181.9
OIL AND GAS RIGHTS – NET (Thousands of acres)		
Undeveloped		
Alberta	4,610	5,520
Saskatchewan	4,751	4,996
British Columbia	1,078	980
Yukon and N.W.T.	3,571	2,293
Maritime Provinces	5,405	4,583
Manitoba	789	789
TOTAL UNDEVELOPED	20,204	19,161
Developed	472	405
TOTAL	20,676	19,566

1966	1965	1964	1963	1962	1961	1960	1959
25,856	25,456	26,389	25,057	22,167	22,521	19,525	18,961
5,247	3,083	2,220	2,216	1,354	178	10	51
4,826	4,582	4,294	3,799	3,265	2,668	2,386	2,026
14	13	10	10	4	5	8	9
35,943	33,134	32,913	31,082	26,790	25,372	21,929	21,047
6,513	5,756	5,223	4,604	3,564	1,450	760	207
42,456	38,890	38,136	35,686	30,354	26,822	22,689	21,254
169.5	138.2	116.6	104.6	82.1	60.1	43.6	44.2
386	343	245	237	132	5	–	–
56,123	57,502	58,817	53,724	42,678	30,759	23,597	22,062
391	200	200	200	187	117	78	78
334	314	297	266	211	166	114	107
34.8	38.4	60.2	66.3	65.1	52.7	47.9	62.9
9.8	10.3	8.0	8.7	7.1	2.7	7.1	6.4
12.1	11.0	9.8	14.9	13.8	5.2	4.8	5.1
56.7	59.7	78.0	89.9	86.0	60.6	59.8	74.4
9.5	7.2	5.0	5.4	2.8	3.5	3.0	3.5
9.0	4.2	7.7	8.1	2.3	5.2	4.0	1.5
40.0	28.9	28.9	22.1	16.8	9.6	14.3	21.9
58.5	40.3	41.6	35.6	21.9	18.3	21.3	26.9
222	195	225	249	164	126	140	185
957.1	919.7	917.2	877.0	754.6	698.6	646.6	605.8
166.8	152.7	136.2	125.3	97.4	88.0	80.0	71.2
1,123.9	1,072.4	1,053.4	1,002.3	852.0	786.6	726.6	677.0
6,434	6,699	5,745	5,601	4,367	4,267	3,986	4,229
5,196	3,931	2,960	2,980	2,655	2,584	2,628	2,736
1,025	1,203	1,161	1,952	2,000	2,379	4,102	2,830
2,033	1,871	1,027	1,461	1,697	1,717	2,012	901
9,167	9,167	–	–	–	–	–	–
789	789	792	792	703	703	703	711
24,644	23,660	11,685	12,786	11,422	11,650	13,431	11,407
383	356	347	321	274	242	164	135
25,027	24,016	12,032	13,107	11,696	11,892	13,595	11,542

	1966	1965	1964	1963	1962	1961	1960	1959
	31,358	28,867	28,879	27,112	22,987	20,887	17,720	17,351
	5,826	5,196	4,709	4,312	3,234	1,097	588	76
	9,009	7,339	5,954	5,218	3,895	2,478	1,741	1,735
	1,527	1,428	430	411	241	30	–	–
	1,197	820	593	666	414	211	131	91
	3,565	3,567	3,677	3,305	2,825	2,236	1,841	1,721
	52,482	47,217	44,242	41,024	33,596	26,939	22,021	20,974
	17,371	15,355	13,803	12,331	10,166	7,006	1,004	2,821
	.95	.84	.75	.67	.57	.39	.06	.16
	32,813	29,444	27,372	25,760	21,106	16,440	11,089	11,081
	1.79	1.61	1.50	1.41	1.19	.93	.62	.62
	–	–	–	–	–	–	–	–
	7,318	7,318	6,403	5,488	5,324	3,549	–	–
	7,318	7,318	6,403	5,488	5,324	3,549	–	–
	.40	.40	.35	.30	.30	.20	–	–
	–	–	–	–	–	–	–	–
	68,753	55,560	51,210	52,858	23,589	25,278	26,500	26,600
	118,300	108,247	100,210	92,810	77,479	71,781	68,324	67,055
	187,053	163,807	151,420	145,668	101,068	97,059	94,824	93,655
	63.2%	66.1%	66.2%	63.7%	76.7%	74.0%	72.1%	71.6%
	–	–	–	–	–	–	–	–
	3,294,044	18,294,044	18,294,044	18,294,044	17,744,592	17,744,592	17,744,592	17,744,592
	3,319	2,720	2,570	2,269	2,535	1,841	2,251	1,678
	2,857	2,908	2,224	2,191	2,027	2,032	2,169	2,346
	3,775	7,847	3,037	28,534	4,320	2,138	3,344	2,297
	5,873	4,535	4,191	4,663	3,224	2,105	2,791	1,945
	8,891	7,618	10,433	12,396	8,287	7,704	9,424	8,464
	4,788	5,861	5,350	2,812	1,899	6,849	1,175	1,119
	8,536	847	812	2,341	3,315	2,426	242	743
	354	362	358	161	245	131	307	111
	38,393	32,698	28,975	55,367(3)	25,852	25,226	21,703	18,703
	–	–	–	–	–	–	–	–
	9,859	10,674	11,548	12,526	11,038	11,485	11,956	12,171
	613	574	506	475	454	425	407	412

d.

Head Office

320 Seventh Avenue South West, Calgary 2, Alberta

Subsidiary Companies (all wholly-owned)

AURORA PIPE LINE COMPANY
Incorporated by Special Act of the Parliament of Canada

BLUE FLAME PROPANE LTD.
Incorporated under the Laws of the Province of Alberta

MIC MAC OILS (1963) LTD.
Incorporated under the Laws of the Province of Alberta

RANGELAND PIPE LINE COMPANY LIMITED
Incorporated under the Laws of the Province of Alberta

SECURITY FREEHOLD PETROLEUMS LIMITED
Incorporated under the Laws of the Dominion of Canada

Transfer Agents

Common shares

MONTREAL TRUST COMPANY
Calgary, Montreal, Toronto, Vancouver and Winnipeg

MORGAN GUARANTY TRUST COMPANY OF NEW YORK
New York

Preferred shares

MONTREAL TRUST COMPANY
Calgary, Montreal, Toronto, Vancouver and Winnipeg

Stock Exchange Listing

Common and Preferred shares

TORONTO STOCK EXCHANGE

Auditors

PEAT, MARWICK, MITCHELL & CO.
Calgary

Hudson's Bay Oil and Gas Company Limited 1968 Annual Report

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